



M. Jasmine S. Oporto
CHIEF COMPLIANCE OFFICER

Through sound corporate governance, including the adherence to a lean and transparent corporate structure, AP fulfills its commitment to create value for its stakeholders and the communities it serves.

FROM YOUR CHIEF COMPLIANCE OFFICER

Dear Shareholders,

Integrity defines the true north in the workings of Aboitiz Power Corporation (AP), its board of directors, management and employees.

Through sound corporate governance, including the adherence to a lean and transparent corporate structure, AP fulfills its commitment to create value for its stakeholders and the communities it serves.

This report capsulizes the Aboitiz code of behavior – trust, transparency, disclosure, fairness and accountability – which has guided AP’s long-term plans, business strategies, fiduciary responsibilities and day-to-day operations.

BOARD OF DIRECTORS

AP is led by a Board that is responsible for adopting directional strategies and for monitoring management’s implementation of such strategies. The Board sets AP’s goals and performance targets, identifies and manages key risk areas in AP’s businesses, ensures that a system of checks and balances is in place and working properly, oversees employee development and succession plans, monitors AP’s compliance with existing laws and regulations in its business operations and ensures that AP remains true to its commitment to its stakeholders.

The Board regularly reviews AP’s governance policies to ensure that such policies remain relevant and appropriate to AP’s governance conditions. In 2007, the Board approved the amendment of AP’s Manual on Corporate Governance to include information security management as an important component of corporate governance.

In the Board are nine directors carefully chosen for their ability to bring about practical but strategic and progressive changes to AP through a dynamic mix of their business, legal and finance competencies. While

they create a dynamic mix of business, legal and finance competencies and expertise, they add value as well from their ability to render independent judgment, particularly in the formulation of corporate policies.

At various times between 2002 and 2008, all the directors have attended the Corporate Governance seminar.

Composition

The Board of Directors is chaired by Jon Ramon M. Aboitiz. The other directors are Erramon I. Aboitiz, President and Chief Executive Officer; Ernesto R. Aboitiz, Vice-Chairman; and directors Luis Alfonso Y. Aboitiz, Mikel A. Aboitiz, Juan Antonio E. Bernad, and Antonio R. Moraza. Except for Mr. Moraza who came on board in 1999, all the aforementioned directors have been with AP since its incorporation in 1998. All have extensive experience in and intimate knowledge of the Philippine electric power industry. Their collective experience and expertise in the electric power business make them very qualified to steer AP through the many growth opportunities and risks brought about by the ongoing deregulation and privatization of the Philippine electric power industry.

Also on the Board are two Independent Directors, Manuel S. Go and Pablo V. Malixi, who were elected to the Board during the annual stockholders meeting in May 2007 in preparation for the initial public offering (IPO) of AP’s common shares in July 2007. They represent 20% of the total number of Directors in compliance with the requirements of the Securities Regulation Code for public companies. As Independent Directors, they are independent of management and free of any business or other relationship with AP that could materially interfere with their exercise of unfettered judgment as members of the Board.

DIRECTORS	SPECIAL AND REGULAR BOARD MEETINGS 2007										
	JAN. 11	JAN.16	MARCH 8	APRIL 12	APRIL26	MAY 15	JUNE 12	JULY 13	AUG. 29	SEPT. 18	NOV. 13
JON RAMON ABOITIZ	P	P	P	P	P	P	P	P	P	P	P
ERNESTO R. ABOITIZ	P	P	P	P	P	A	A	A	P	P	P
ERRAMON I. ABOITIZ	P	P	P	P	P	P	P	P	P	P	P
LUIS ALFONSO Y. ABOITIZ	P	P	P	P	P	P	P	P	A	A	A
JUAN ANTONIO E. BERNAD	P	P	P	P	P	P	P	P	P	P	P
MIKEL A. ABOITIZ	P	P	P	P	P	P	P	A	P	P	P
ANTONIO R. MORAZA	P	P	P	P	P	P	P	A	A	A	P
PABLO MALIXI (elected 4-26-07 as Independent Director)	-	-	-	-	-	A	A	P	P	P	P
MANUEL S. GO (elected 4-26-07 as Independent Director)	-	-	-	-	-	P	P	P	P	P	P
JAIME JOSE ABOITIZ (Director up to 4-26-07)	P	P	P	P	-	-	-	-	-	-	-
LUIS MIGUEL ABOITIZ (Director up to 4-26-07)	P	P	P	P	-	-	-	-	-	-	-
Total No. of Directors Present	9	9	9	9	7	7	7	6	7	7	7

Legend:
P- Present
A- Absent

To emphasize the oversight function of the Board over management, the respective roles and responsibilities of the Board and of management are clearly delineated. In particular, the role of the Chairman is separated from that of the President and Chief Executive Officer. This separation of responsibilities serves to underscore the accountability of management to the Board and ultimately to AP's shareholders that the Board represents.

Each member of the Board holds office for one year until his successor is elected at the next annual stockholders' meeting.

Board Performance

The year 2007 was a particularly busy one for the AP Board as it held a total of eleven (11) regular and special meetings to preside over and orchestrate the IPO of AP's common shares as well as the significant power asset acquisitions and implementation of greenfield projects.

Board Committees

To ensure that the Board is independently and fully informed of the strategic issues and major risks facing AP, four committees – Nomination, Compensation and Remuneration, Audit and Investor Relations – support the Board to ensure good governance. These Board Committees were constituted in 2007 prior to the IPO of AP's common shares.

Nominations Committee

The Nomination Committee pre-screens and shortlists all nominees for Board membership in accordance with the provisions of AP's Manual on Corporate Governance and Bylaws as well as the statutory requirements under the Corporation Code of the Philippines and the Securities Regulations Code. In consultation with AP's executive committee, the Nomination Committee is also tasked to re-define the role, duties and responsibilities of the Chief Executive Officer, primarily by integrating the dynamic requirements of the business as a going concern, and the future expansionary prospects within the tenets of good corporate governance.

The Committee is composed of at least three voting members, one of whom is an independent director, and one non-voting member in the person of the HR Manager. To date, the voting members of the Nomination Committee are Erramon I. Aboitiz as Chairman, Antonio R. Moraza and Independent Director Pablo V. Malixi.

Compensation and Remuneration Committee

The Compensation and Remuneration Committee reinforces AP's pay-for-performance philosophy. It is tasked to establish a formal and transparent policy on directors and executive remuneration to ensure that compensation is consistent with AP's culture, strategy and control environment and in a level sufficient to attract and retain

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CORPORATE GOVERNANCE

directors and officers who are needed to run AP successfully. It is also responsible for reviewing existing personnel policies on conflict of interest, salaries and benefits, promotion and career advancement directives.

The Committee has at least three members, one of whom is an Independent Director. Its current members are Erramon I. Aboitiz as Chairman, Antonio R. Moraza and Independent Director Manuel S. Go.

In 2007, the Committee held its initial meeting during which it reviewed and approved the enhancements to the benefits packages of AP's employees. It also approved the implementation of an employee rewards and recognition and a 360° survey to ensure the continuous improvement of the competencies of AP's team leaders. It likewise authorized the review of AP's organizational structure and manpower complement that will serve as basis for its hiring policy, employee movements and succession planning.

Audit Committee

One of the key roles of the Audit Committee is to advise and assist the Board in safeguarding the integrity of financial reporting in AP. This responsibility embraces adopting, maintaining and applying appropriate accounting and reporting processes and procedures. It also involves ensuring that financial reports are compliant with internal processes and procedures as well as with pertinent accounting standards and regulatory requirements.

The Committee has oversight over the Corporate Audit Team, which performs the internal audit function within AP. It likewise performs direct interface functions with the internal and external auditors, facilitates the independence of the external audit process and addresses issues arising from this process. The Audit Committee also performs oversight financial management functions and crisis management.

The Audit Committee is chaired by Independent Director Manuel S. Go, with Mikel A. Aboitiz and Juan Antonio E. Bernad as members. In 2007, the Audit Committee held its first meeting since AP went public. Among the items discussed were the 2007 audit plan and scope, including outstanding accounting and auditing issues. The Committee also reviewed the internal audit report of the Corporate Audit Team and the third quarter consolidated financial statements and results of operations.

Investor Relations Committee

The Investor Relations Committee ensures that shareholders and investors receive timely, high quality, relevant, balanced and understandable information about AP. It is also responsible for ensuring that shareholders and investors have easy and direct access to officially designated spokespersons for clarifying information, issues and for conveying concerns.

The Committee also performs oversight functions over the Investor Relations and Corporate Communications teams of AP, regularly monitoring and evaluating the programs and activities of the teams against expectations of disseminating accurate and timely information to shareholders, investors and other stakeholders.

Composed of Erramon I. Aboitiz as Chairman, with Juan Antonio E. Bernad, CFO and Chief Information Officer Iker M. Aboitiz and AVP for Corporate Communications Caroline S. Ballesteros as members, the Committee held its first meeting in 2007 during which were discussed results of meetings and briefings with institutional investors and financial analysts, updates' on the current features in the corporate website and stockholders' concerns.



Risk management is a continuous improvement process whereby everyone in the AP organization, from the Board of Directors to the employees, is actively integrating and embedding risk management in all business activities.

Director and Senior Executive Compensation

AP rewards its individual directors and officers based on ability to execute his duties and responsibilities. It is AP's philosophy to reward based on individual performance. Performance is evaluated and compensation is reviewed on an annual basis. AP ensures that it pays its directors and officers competitively by comparing rates with other Philippine-based companies through a market salary survey. Changes in Board compensation, if any, comes at the suggestion of the Compensation and Remuneration Committee but with full discussion and concurrence by the Board.

In 2007, all of AP's directors received a monthly allowance of ₱50,000 per month. In addition, each director received a per diem for every Board meeting attended as follows:

	Per Diem per Board Meeting Attended
Independent Directors	₱25,000
Other Directors	₱15,000

To date, AP has not granted any stock option to its directors or officers.

RISK MANAGEMENT

Risk Management Framework

AP's risk management framework provides the manner and approach by which risks (including compliance risks) are defined, managed, assessed and monitored. Risk management is a continuous improvement process whereby everyone in the AP organization, from the Board of Directors to the employees, is actively integrating and embedding risk management in all business activities.

The framework provides the infrastructure for risk management and is comprised of AP's Board of Directors, the Audit Committee and other board committees, executive and divisional committees, management and other relevant parties in the AP organization. Together, the different components of the risk management framework set the risk culture in AP and develop appropriate policies, procedures and methodologies.

Policies and Procedures and Reporting Responsibilities

There are existing policies and procedures articulating AP's position and expectations on identified risks and the manner of communicating these to the Board and staff. There are established issue identification, escalation and reporting mechanisms across AP. Risks issues are reported independently to the Board, Executive Committee, Audit Committee and other relevant Board committees at designated periods.

AUDIT AND ACCOUNTABILITY

External Audit

An external auditor enables an environment of good corporate governance as reflected in the financial records and reports of AP. An external auditor is selected and appointed by the shareholders upon recommendation of the Audit Committee.

As a policy, the Audit Committee pre-approves audit plans, scope and frequency before an audit is conducted. Audit services of external auditors for 2007 were pre-approved by the Audit Committee. The Committee also reviewed the extent and nature of these services to ensure that the independence of the external auditors is preserved.

CORPORATE GOVERNANCE

To safeguard adherence to corporate principles and best practices, a Chief Compliance Officer who reports directly to the Board Chairman is designated.

The auditing firm of Sycip, Gorres, Velayo & Company (SGV) is AP's external auditor. The current audit partner is Mr. Ladislao Z. Avila, Jr. SGV is being nominated for re-election at the scheduled annual meeting of shareholders.

The fees paid to the external auditors for the years 2007 and 2006 were as follows:

	Year ended December 31, 2007	Year ended December 31, 2006
Audit Fees	₱15,498,880	₱110,000
Audit-Related Fees	-	-
Tax Fees	-	-
Consultancy Fees	-	-
Total	₱15,498,880	₱110,000

Of the total audit fees incurred in 2007, approximately ₱ 14.4 million was incurred by AP in connection with the IPO of its common shares in July 2007.

Internal Audit

It is the policy of AP to maintain an internal audit function as a primary resource of the Board of Directors, Audit Committee and management in the effective discharge of their respective duties and responsibilities of reviewing, evaluating, managing and controlling AP's operations, including that of its subsidiaries and affiliates.

Internal audit is an independent and objective assurance and consulting function designed to add value and improve AP's operations through a systematic, disciplined approach in evaluating and improving the effectiveness of AP's risk management, control and governance processes. It is undertaken by the Corporate Audit Team, a staff organization that functions in an advisory capacity. To maintain its objectivity, it exercises no direct responsibility or authority on operating activities or functions it reviews.

The Corporate Audit Team reports to the Audit Committee and has direct access to the Chairman of the Board. The Board of Directors and senior management support the Corporate Audit Team to ensure that audits are performed without interference.

The Corporate Audit Team has full, free and unrestricted access to all operating and financial records, information, systems and applications, physical properties, activities and personnel under review.

Its scope of work encompasses evaluating and improving the adequacy and effectiveness of AP's risk management, control and governance processes through risk profiling and evaluation of risk exposures, evaluation of existing internal control structure, participation in the planning, design and implementation of major information systems as a consultant to ensure that systems are properly tested, secured, documented and implemented, and undertaking of special reviews as determined by the Audit Committee.

The Corporate Audit Team adheres to established professional standards and abides by the Institute of Internal Auditors' Code of Ethics.

Compliance Officer

To safeguard adherence to corporate principles and best practices, a Chief Compliance Officer who reports directly to the Board Chairman is designated. Principal responsibilities include monitoring compliance with Manual on Corporate Governance, identifying, monitoring and controlling compliance risks and recommending improvements to existing policies. Presently, the Corporate Secretary holds the position in concurrent capacity.



The Office of the Chief Compliance Officer monitors compliance with the reportorial requirements of the Securities and Exchange Commission and the Philippine Stock Exchange and reports to management the status of such compliance as well as other material legal issues confronting AP every two months.

The Chief Compliance Officer works closely with the Executive Vice President for Strategy and Regulatory Affairs to ensure compliance with the rules and regulations of power industry regulators and relevant government agencies.

In 2007 the Office of the Corporate Secretary started a documents management system for AP's and its subsidiaries' constitutive documents, contracts, government filings and other relevant business documentation as a benchmark for compliance and ensuring document integrity.

DISCLOSURE AND TRANSPARENCY

Ownership Structure

AP discloses its ownership structure in the reports it files with the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE). It submits to the PSE a list of its top 100 shareholders every quarter. It likewise submits periodically to the PSE a public ownership report that details the ownership of controlling shareholders, including the shareholdings of their subsidiaries and affiliates, and of directors and management. It also discloses its top 20 shareholders, including the record and beneficial owners owning more than 5% of AP's outstanding capital stock, as well as the shareholdings of directors and officers in the Definitive Information Statement sent out to shareholders annually.

As of December 31, 2007, Aboitiz Equity Ventures, Inc. (AEV) owns 5.40 billion common shares of AP, representing 75% of the outstanding capital stock of AP. Aboitiz & Company, Inc., in turn owns 2.48 billion common shares of AEV, representing 43% of the outstanding capital stock of AEV. PCD Nominee Corporation (Foreign) holds a total of 1.49 billion common shares of AP, representing 21% of the outstanding capital stock of AP.

Disclosures

AP discloses to the public its financial and operating results every quarter through its filings with the SEC and the PSE. It also discloses its full year financial and operating results in SEC Form 17-A filed with the SEC and the PSE. Its shareholders are furnished a report of its full year financial and operating results through the Definitive Information Statement sent out to the shareholders every year.

In addition to the periodic reports submitted to the SEC and the PSE, AP immediately updates the investing public with any material fact or event related to AP and its business operations which may affect investors' decision in relation to the trading of AP's securities. In 2007, unstructured disclosures filed with the SEC and the PSE contained information about significant asset acquisitions such as the STEAG and the Ambuklao-Binga power plants, the Magat refinancing, joint venture projects, status of ongoing projects, and appointments of certain officers of AP. These unstructured disclosures are also uploaded to AP's website.

In addition to the periodic reports submitted to the SEC and the PSE, AP immediately updates the investing public with any material fact or event related to AP and its business operations which may affect investors' decision in relation to the trading of AP's securities.



The Investor Relations Unit is responsible for addressing the various information requirements of the investing public, particularly the minority shareholders.

Dealings in Securities

In compliance with disclosure rules of the SEC and the PSE, the members of the Board of Directors and management disclose within five trading days any acquisition, disposal or change in their beneficial shareholdings in AP.

STAKEHOLDER RELATIONS

Shareholder Meeting and Voting Procedures

Annual and special meetings of shareholders are held in Cebu City where the principal office of AP is located. Annual meetings of the shareholders are held every third Monday of May of each year. In addition, a separate shareholders' briefing is conducted in Makati City for shareholders who are unable to attend the annual shareholders' meeting in Cebu City.

Notices and agenda of any shareholders' meeting are sent to shareholders of record at least 15 business days from the date of the meeting.

Each common share of stock entitles the holder under whose name it is registered to one vote in all matters that may be submitted for the consideration of the shareholders during the meeting. Shareholders may vote either in person or by proxy duly given in writing and presented to the Corporate Secretary for inspection, validation and record at least seven (7) days prior to the opening of the meeting.

Shareholder and Investor Relations

AP aims to promote a good relationship with its shareholders and investors. An Investor Relations Unit was created to ensure the effective and transparent communication of relevant information about AP to its investing public. This is to ensure that the investing public has a good understanding of AP and its plans and strategies, which open communications redound to shareholder value creation.

The Investor Relations Unit is responsible for addressing the various information requirements of the investing public, particularly the minority shareholders. Timely disclosures to the PSE and the SEC, regular quarterly briefings, one-on-one meetings, conference calls, roadshows and investor conferences, website updates, emails and telephone calls were the means by which AP, through its Investor Relations Unit, conveyed its messages to the investing public last year.

In 2007, AP held two briefings on its financial and operating results. The first was on the results for the first half of 2007 and the second was on the results for the first nine months of 2007. Mostly in attendance were institutional investors and sell side analysts. Apart from venues like these, access to senior management was provided via one-on-one meetings upon request.

AP participated in several investor conferences that were held both locally and internationally. Senior management met with buy side analysts and fund managers, and updated them of recent developments, both industry and company specific.

AP launched its website, www.aboitizpower.com in August 2007. This was in compliance with the 40-day blackout policy that was imposed on AP in relation to its IPO. AP regularly updates the Investor Relations section of its website. Filings with and disclosures to regulatory agencies, press releases and presentations made during briefings were immediately made available on this section. The regular release of the Online Newsletter was also another way of updating the investing public of the current developments in AP.



AP seeks to outperform its competition fairly and honestly through superior performance and every employee, officer and director is expected to keep the best interests of customers paramount and to deal fairly with suppliers, competitors and the public.

Employee Relations

In AP, people are treated not just as employees but as business partners as well.

AP offers fair and competitive compensation commensurate to employee qualification and performance on the job. It aims to provide healthy balance between financial and non-financial rewards, and continually measures its employees' satisfaction and morale level through annual surveys. A healthy work-life balance is promoted throughout the organization. It is likewise committed to providing a safe and healthy work environment for its employees.

AP places a high regard for its employees' professional and personal growth, and finds opportunities to develop each team member. It cultivates life-long learning through high impact, quality training programs designed to support employee career development path and personal growth. Exemplary performers are developed through a talent management program, which is designed for the next generation of corporate leaders.

AP encourages an open-door policy, which allows employees to talk and interact with top executives in the organization who serve as leaders and mentors. This allows a free exchange of ideas and experiences, promoting teamwork, collaboration, cooperation and diversity within the organization.

CODE OF ETHICS AND BUSINESS CONDUCT

AP's Code of Ethics and Business Conduct sets forth the basic principles that guide the day-to-day activities of any of its employee, officer or director. It is to be read together with other existing policies and procedures of AP.

Under the Code, everyone within the AP organization is expected to comply with the spirit and letter of applicable laws and regulations to promote the avoidance not only of actual misconduct but even the appearance of impropriety.

AP seeks to outperform its competition fairly and honestly through superior performance, and every employee, officer and director is expected to keep the best interests of customers paramount and to deal fairly with suppliers, competitors and the public. Moreover, every employee, officer and director is exhorted to act in the best interest of AP and avoid any situation in which a conflict of interest may arise.

Employees and officers are required to promptly report to the Human Resources Department any potential relationship, action or transaction that may give rise to a conflict of interest. Directors are under obligation to disclose any actual or potential conflicts of interest to the Chairman of the Board and the Compliance Officer. All directors are also required to recuse themselves from any Board discussion or decision affecting their personal, business or professional interests.

The Code further prohibits the use of one's position in AP or of corporate property or information for personal gain. Protection of proprietary and confidential information generated and gathered in the conduct of business is considered the obligation of every member of the AP organization. Conversely, everyone is also expected to respect the property rights of other companies.

Insider trading is strictly prohibited under the Code and every member of the AP organization is obligated to prevent the misuse of inside information.

The Code promotes a safe and healthy working environment that provides equal employment opportunities and prohibits discriminatory practices and where all individuals are treated with dignity and respect.

The Code affirms AP's commitment to provide fair and truthful disclosures to the public. In particular, AP's senior financial officers, executive officers and directors are tasked to promote full, fair, accurate, timely and understandable disclosure in AP's public communications and in all disclosures filed with the SEC and other regulators. Furthermore, it is considered the obligation of every member of the AP organization to report to the proper officer or committee any materially inaccurate or misleading statement in a public communication.

The Code further affirms AP's obligation to maintain accurate and complete books and records. In particular, senior financial officers are tasked to ensure that financial information included in AP's books and records is correct and complete in all material respects.

The Code also promotes a safe and healthy working environment, an environment that provides equal employment opportunities and prohibits discriminatory practices and where all individuals are treated with dignity and respect.

WEBSITE

Additional information on corporate governance principles and practices of the Aboitiz Power Corporation is available at www.aboitzpower.com.



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Some of Davao Light's Safety Training Programs